

Federal Fiscal Programs

THE fiscal year 1983 budget, released in early February, broadens the redirection of fiscal policy begun last year by the administration. The main features of the new budget are:

- A rapid increase in national defense spending;
- A decline in nondefense spending other than for entitlement programs and net interest;
- Adherence to the tax reductions passed by Congress last year, although some increases in corporation income taxes and user fees are proposed.

National defense spending increases 18 percent in 1983 (roughly 10.5 percent in real terms, according to the administration). Increases are provided for virtually all weapons projects under way; there are few, if any, new projects in the budget. Major emphasis is on improving the combat readiness and training of forces, removing the backlog of required maintenance of ships and aircraft, and modernizing nuclear weapons and delivery systems.

Nondefense spending other than for entitlements and net interest declines 24 percent. The administration's proposed program reductions more than account for the decline. Major declines occur in employment and training, transportation, and education. Entitlements increase 5 percent, significantly below their recent rate of increase; the 1983 increase is limited by proposed program reductions. (See "Entitlement Programs," on page 25.) Net interest increases 16 percent, reflecting large deficits and double-digit interest rates.

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The Economic Recovery Tax Act of 1981 (ERTA), passed by Congress last summer, is an integral part of the administration's economic program. This act provided major reductions in individual income tax rates and substantial depreciation write-offs for

Table 1.—Economic Assumption Underlying the Fiscal Year 1983 Budget

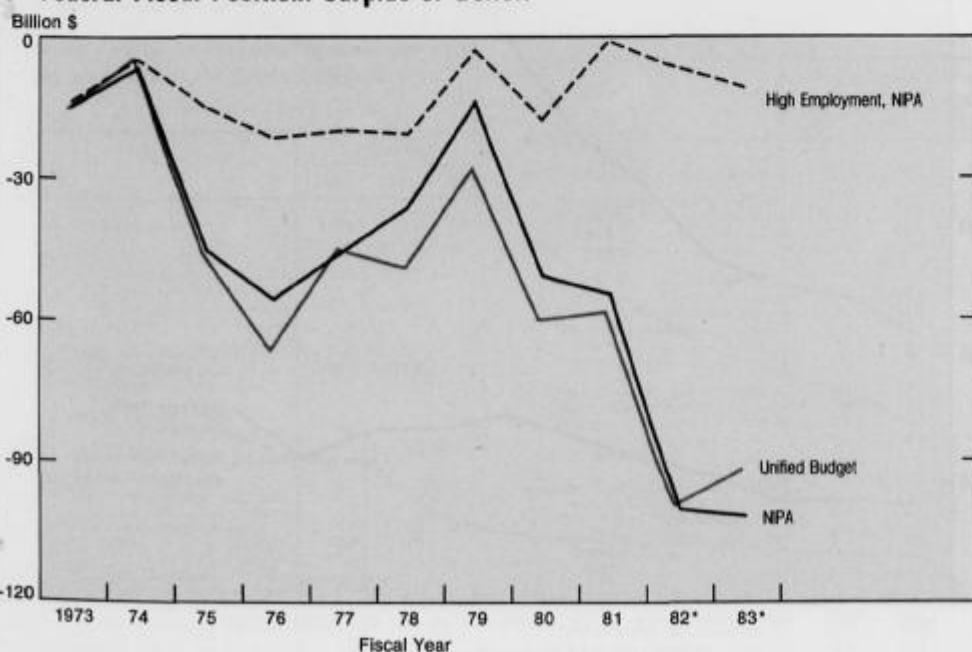
	Calendar year			
	Actual		Estimates	
	1980	1981	1982	1983
	Billions of dollars			
Gross national product:				
Current dollars	2,626	2,922	3,160	3,524
1972 dollars	1,481	1,510	1,513	1,591
Incomes:				
Personal income	2,160	2,404	2,641	2,887
Wages and salaries	1,344	1,483	1,605	1,747
Corporate profits before taxes	246	230	215	260
	Percent change from preceding year			
GNP in current dollars:				
Annual average	8.8	11.3	8.1	11.5
Fourth quarter	9.4	9.3	10.4	11.0
GNP in 1972 dollars:				
Annual average	-.2	2.0	.2	5.2
Fourth quarter	-.3	.7	3.0	5.2
GNP deflator:				
Annual average	9.0	9.1	7.9	6.0
Fourth quarter	9.8	8.6	7.2	5.5
Consumer Price Index:				
Annual average	13.5	10.3	7.3	6.0
Fourth quarter	12.6	9.4	6.6	5.1
	Percent			
Unemployment rate:				
Annual average	7.1	7.6	8.9	7.9
Fourth quarter	7.5	8.4	8.4	7.6
Insured unemployment rate: ¹				
Annual average	3.8	3.5	4.9	4.3
Fourth quarter	3.8	3.9	4.6	4.0
Interest rate, 91-day Treasury bills: ²	11.5	14.1	11.7	10.5

1. Insured unemployment under the State regular unemployment insurance program, excluding recipients of extended benefits, as percentage of covered employment under that program.

2. Average rate on new issues within the year. The estimates assume, by convention, that interest rates vary with the rate of inflation. They do not represent a forecast of interest rates.

Source: "The Budget of the United States Government, Fiscal Year 1983."

CHART 5
Federal Fiscal Position: Surplus or Deficit



*Estimates from Office of Management and Budget, and BEA.

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business, effective in 1981 and over the next several years. (See the August 1981 SURVEY OF CURRENT BUSINESS.) The budget does not propose any modifications in the size of the timing of these reductions. However, it does propose a variety of changes which increase receipts \$12.8

Table 2.—Federal Government Receipts and Expenditures

(Billions of dollars)

	Fiscal year		
	Actual 1981	Estimates 1982	1983
Unified budget			
Receipts	599.3	626.8	666.1
Outlays	657.2	725.3	757.6
Surplus or deficit (—)	—57.9	—98.6	—91.5
National income and product accounts			
Receipts	612.5	641.4	686.2
Expenditures	667.4	741.4	788.1
Surplus or deficit (—)	—54.9	—100.0	—101.9
High-employment surplus or deficit (—)	—8	—6.1	—10.7

Sources: "The Budget of the United States Government, Fiscal Year 1983," and the Bureau of Economic Analysis.

Table 3.—Relation of Current Services Estimate to Unified Budget

(Billions of dollars)

	Fiscal year	
	1982	1983
Receipts		
Current services estimate	626.4	653.3
Plus: Proposed legislation:		
Completed contract accounting		3.3
Minimum corporate tax		2.3
Withholding on interest and dividends		2.0
Acceleration of corporate tax payments		1.4
Airport and airway trust fund taxes .....	.1	1.2
Railroad retirement		—1.7
All other .....	.2	4.3
Equals: Unified budget	626.8	666.1
Outlays		
Current services estimate	726.4	779.3
Plus: Proposed program increases:		
National defense	1.3	19.7
Federal Aviation Administration .....	.1	.5
Internal Revenue Service .....	.1	.4
Other .....		.8
Proposed program reductions:		
National defense		—1.1
Nondefense:		
Entitlements	—1.4	—12.8
Management initiatives:		
Outer Continental Shelf		—8.4
Other	—1.1	—5.8
Net interest		—2.7
Other:		
Employment and training		—2.2
Income security and health		—1.8
Transportation		—1.6
Education	—1	—1.2
Social services	—1	—1.0
Other		—4.5
Equals: Unified budget	725.3	757.6

Source: "The Budget of the United States Government, Fiscal Year 1983."

billion in 1983. The major changes in increasing receipts are: (1) changes in regulations concerning completed contract accounting, (2) modification of the minimum corporation income tax, (3) withholding on interest and dividends, (4) acceleration of corporate tax payments, and (5) higher airport and airway taxes. Partly offsetting the increases is a change placing the railroad retirement system in the private sector and extending full social security coverage to railroad workers. In addition, the administration proposes to tighten enforcement and collection activities of the Internal Revenue Service, thereby increasing revenues. The administration is also seeking to increase various existing user fees and impose new ones.

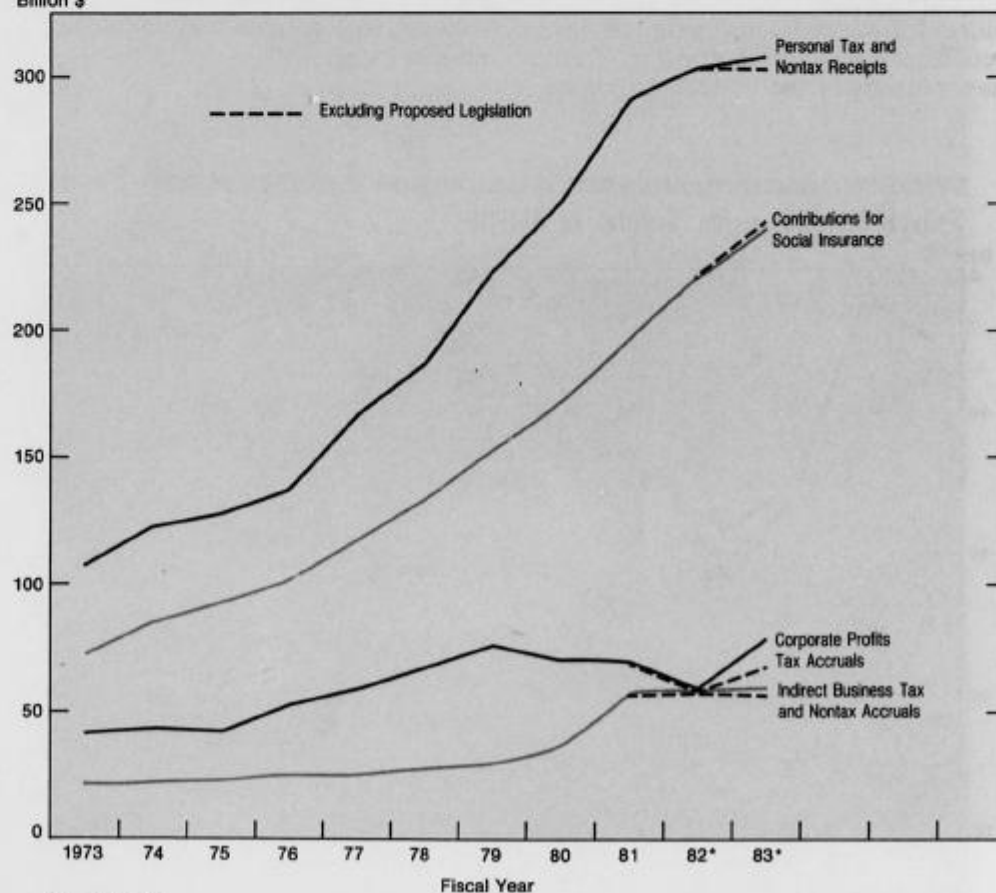
Economic assumptions

The economic assumptions underlying the fiscal year 1983 budget are shown in table 1. Gross national product (GNP) in constant dollars is fore-

cast to increase 3 percent from the fourth quarter of 1981 to the fourth quarter of 1982 and 5.2 percent to the fourth quarter of 1983. The current recession is expected to end early in 1982 and to be followed by growth by mid-year. Prices, as measured by the GNP deflator, increase 7.2 percent to the fourth quarter of 1982 and 5.5 percent to the fourth quarter of 1983. It is expected that the moderation of price increases that began last year will become more general and significant this year; beyond 1982, the cumulative deceleration of inflation is critical to the administration's forecast of sustained economic recovery. The unemployment rate is forecast to be 8.4 percent in the fourth quarter of 1982 and 7.6 percent in the fourth quarter of 1983. The rate is expected to reach about 9 percent this spring, before growth resumes. Thereafter, the administration forecasts that rapid growth will pull the unemployment rate down between one-quarter

Federal Government Receipts, NIPA Basis

Billion \$



*Estimates by BEA

U.S. Department of Commerce, Bureau of Economic Analysis

CHART 6

and one-half a percentage point per quarter.

Unified budget

The unified budget deficit decreases from \$98.6 billion in fiscal year 1982 to \$91.5 billion in fiscal year 1983 (table 2 and chart 5). Despite tax reductions, receipts increase \$39.8 billion—or 6.3 percent—to \$666.1 billion.

Table 4.—Relation of Federal Government Receipts in the National Income and Product Accounts to the Unified Budget

(Billions of dollars)

	Fiscal year		
	1981	1982	1983
Unified budget receipts.....	599.3	626.8	666.1
Less: Coverage differences.....	1.3	1.5	1.6
Financial transactions.....	0	0	0
Plus: Netting differences:			
Contributions to government employees retirement funds.....	9.8	11.3	12.4
Other.....	7.9	9.2	11.1
Timing differences:			
Corporate income tax.....	-3.7	-1.7	-1.8
Federal and State unemployment insurance taxes.....	-2	.3	.7
Withheld personal income tax and social security contributions.....	-1.5	-3.4	-8
Excise taxes.....	2.7	0	.1
Other.....	0	0	0
Miscellaneous.....	-4	.4	0
Equals: Federal Government receipts, NIPA.....	612.5	641.4	686.2

Table 5.—Relation of Federal Government Expenditures in the National Income and Product Accounts to the Unified Budget

(Billions of dollars)

	Fiscal year		
	1981	1982	1983
Unified budget expenditures.....	657.2	725.3	757.6
Less: Coverage differences:			
Geographic.....	4.6	4.7	4.5
Off-budget Federal entities.....	-21.0	-19.6	-15.7
Other.....	.3	.6	.4
Financial transactions:			
Net lending.....	29.8	21.4	15.3
Other.....	.2	.5	.4
Net purchases of land:			
Outer Continental Shelf.....	-7.9	-4.9	-14.7
Other.....	.2	.1	.7
Plus: Netting differences:			
Contributions to government employees retirement funds.....	9.8	11.3	12.4
Other.....	7.9	9.2	11.1
Timing differences:			
National defense purchases.....	-1.4	-3	-3.3
Other.....	-2	-1.8	-6
Miscellaneous.....	.3	.3	.2
Equals: Federal Government expenditures, NIPA.....	667.4	741.4	788.1

Tax reductions provided in the ERTA reduce receipts \$38.3 billion in 1982 and \$91.6 billion in 1983.

Outlays increase \$32.3 billion—or 4.5 percent—in 1983, to \$757.6 billion. National defense outlays increase \$33.6 billion, more than accounting for the overall increase. Nondefense outlays decline \$1.3 billion. Entitlement programs and net interest increase nearly \$30 billion; all other outlays combined decline more than \$31 billion, or 24 percent. These “all other” outlays, which account for only about 13 percent of the total budget in 1983, will be 29 percent below their 1980 level—a 3-year decline of nearly \$40 billion—if the budget estimates materialize. This measure exaggerates somewhat the impact of the decline on programs because it includes significant increases in offsetting receipts (negative outlays in the unified budget), such as sales of Outer Continental Shelf oil leases, user fees, and sales of assets. For example, sales of oil leases were about \$4 billion in fiscal year 1980 and are estimated at \$18 billion in fiscal year 1983.

Current services estimates

Current services estimates show what receipts and outlays would be without policy changes. They are neither recommended amounts nor fore-

casts, but rather are a base with which administration or congressional proposals can be compared. The level of outlays shown are those needed to maintain on-going Federal programs and activities at levels, in real terms, of the preceding year. The estimates also reflect the effects of inflation on virtually all programs.

Unified budget receipts in 1983 are \$12.8 billion higher than current services receipts, largely due to the proposed tax changes discussed earlier (table 3). Unified budget outlays are \$21.6 billion lower than current services outlays, because proposed reductions (\$43.0 billion) exceed proposed increases (\$21.4 billion). Changes in entitlement programs account for about 30 percent of the reductions. Management initiatives, such as sales of Outer Continental Shelf oil leases, and lower net interest account for another 40 percent. A small reduction in

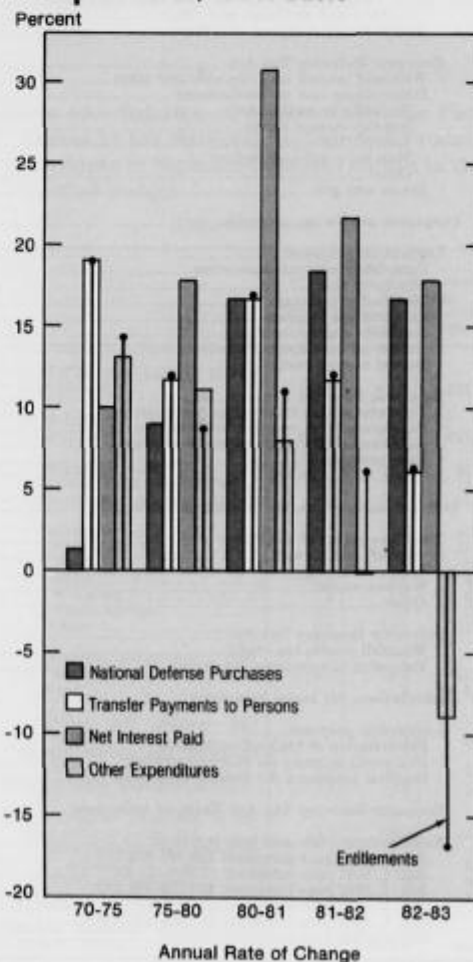
Table 6.—Breakdown of Changes in Federal Receipts, NIPA Basis

(Billion of dollars)

	Change from preceding fiscal year		
	1981	1982	1983
Total receipts.....	85.2	28.9	44.8
Due to higher tax bases.....	70.9	48.7	83.5
Due to tax changes ¹	14.3	-19.8	-38.7
Enacted.....	14.3	-20.6	-55.1
Proposed.....		.8	16.4
Personal tax and nontax receipts.....	41.0	13.9	3.1
Due to higher tax bases.....	42.8	45.9	47.5
Due to tax changes.....	-1.8	-32.0	-44.4
Enacted.....	-1.8	-32.1	-49.1
Proposed.....		.1	4.7
Corporate profits tax accruals.....	-1.0	-10.5	19.0
Due to higher tax bases.....	8.9	-6.8	15.4
Due to tax changes.....	-9.9	-3.7	3.6
Enacted.....	-9.9	-4.1	-6.8
Proposed.....		.4	10.4
Indirect business tax and nontax accruals.....	20.4	1.3	.6
Due to higher tax bases.....	1.2	4.0	2.1
Due to tax changes.....	19.2	-2.7	-1.5
Enacted.....	19.2	-3.0	-3.4
Proposed.....		.3	1.9
Contributions for social insurance.....	24.8	24.2	22.1
Due to higher tax bases.....	18.0	5.6	18.5
Due to tax changes.....	6.8	18.6	3.6
Enacted.....	6.8	18.6	4.2
Proposed.....			-6

1. Consists of all tax changes since fiscal year 1980.

CHART 7
Growth of Federal Government Expenditures, NIPA Basis



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national defense, including \$0.6 billion for pay reform, and reductions in various other nondefense programs make up the remaining 30 percent. Almost all of the reductions require legislation reducing authorized program levels. The unified budget deficit is \$34.5 billion lower than the current services budget deficit.

Federal sector of the NIPA's

BEA has prepared estimates of the Federal sector on the national income

and product accounting (NIPA) basis consistent with the unified budget estimates (table 2). The estimates shown in this article differ slightly from the preliminary estimates published in early February in the budget; details of the latter are shown in *Special Analysis B, "Federal Transactions in the National Income Accounts."* The estimates in this article incorporate revised NIPA estimates for the fourth quarter of 1981 and more detailed information about tax and expenditure changes in the budget.

Estimates of the Federal sector are integrated conceptually and statistically with the rest of the NIPA's and differ in several respects from the unified budget. Unlike the unified budget, they exclude financial transactions, such as loans, and record several categories of receipts and expenditures on a timing basis that is different from the budget. (For a more detailed discussion of the differences, see the February 1980 Survey.) Table 4 shows the relation between unified budget and NIPA receipts and table 5

Table 7.—Selected Tax Changes, NIPA Basis

(Billions of dollars)

	Fiscal year		Calendar year									
	1982	1983	1982	1983	Seasonally adjusted at annual rates							
					1982				1983			
					I	II	III	IV	I	II	III	IV
Direct impact on Federal sector deficit, NIPA basis ¹	-17.0	-86.2	-27.0	-68.4	-9.0	-16.1	-31.5	-37.0	-42.8	-41.3	-75.6	-86.4
Personal tax and non-tax receipts	-28.3	-77.7	-48.8	-85.8	-23.8	-34.3	-58.0	-58.0	-59.9	-70.2	-100.4	-102.9
Legislation proposed	.1	4.8		6.9				.1	6.8	8.8	7.0	7.2
Withheld income tax:												
Interest and dividends		6.7		7.8					7.5	7.7	7.0	8.1
Declarations and net settlements	.1	-1.0		-1.0					-1.0	-1.0	-1.0	-1.0
Increased enforcement		1.6		1.6					1.6	1.6	1.6	1.6
Interest and dividends and other		-2.6		-2.6					-2.6	-2.6	-2.6	-2.6
Non-taxes: Credit Guard over loss		.1		.1				.1	.1	.1	.1	.1
Economic Recovery Tax Act	-38.3	-82.5	-40.8	-92.5	-28.8	-24.3	-58.0	-58.1	-75.8	-77.9	-107.4	-110.1
Withheld income tax: rate cuts and other	-23.5	-51.9	-83.4	-71.8	-16.1	-16.1	-49.9	-51.0	-52.2	-53.4	-89.6	-91.0
Declarations and net settlements	-6.6	-18.9	-6.6	-18.3	-7.4	-7.4	-5.8	-5.8	-21.1	-21.1	-18.8	-18.3
Tax-exempt certificates		-5		-5					-5.8	-5.8		
Royalty owners credit		.4		.4					.4	.4	.4	.4
Extend IRA's		-1.1		-1.1					-1.1	-1.1	-1.1	-1.1
Married couples deduction		-4		-4					-4	-4	-4	-4
Other	-6.3	-11.2	-6.3	-11.2	-5.3	-5.3	-5.3	-5.3	-11.2	-11.2	-11.2	-11.2
Estate and gift	.2	-2.3		-2.3					-2.3	-2.3	-2.3	-2.3
Corporate profits tax accruals	-8.5	-8.8	-8.8	-4.8	-7.6	-8.9	-10.3	-12.4	-1.9	-3.7	-5.4	-8.2
Legislation proposed	.4	10.8	.5	14.4	.5	.5	.5	.5	14.0	14.3	14.5	14.7
Completed contract accounting		5.0		6.7					6.7	6.7	6.7	6.7
Minimum tax		3.4		4.8					4.2	4.5	4.6	4.8
Modified cost recovery		.2		1.1					1.1	1.1	1.1	1.1
Construction interest		.5		1.1					1.1	1.1	1.1	1.1
Increased enforcement	.4	1.0	.5	1.1	.5	.5	.5	.5	1.0	1.0	1.1	1.1
Industrial development bonds		-3		-3					-2	-2	-2	-2
Repeal energy credit		.1		.2					.1	.1	.2	.2
Economic Recovery Tax Act	-8.8	-18.8	-10.3	-19.2	-8.1	-9.4	-10.8	-12.9	-15.8	-18.0	-20.1	-22.9
Accelerated cost recovery system: Basic	-4.9	-10.9	-6.0	-11.9	-4.0	-4.8	-5.8	-7.4	-8.9	-10.8	-12.7	-15.1
Accelerated cost recovery system: Leasing	-2.9	-4.4	-3.3	-4.7	-2.7	-3.1	-3.5	-3.9	-4.3	-4.6	-4.8	-5.1
Accelerated cost recovery system: Other	-1	-1.2	-1	-1.4	-1	-1	-1	-1	-1.4	-1.4	-1.4	-1.4
Rate reductions	-1	-4	-2	-4	-1	-2	-2	-2	-3	-4	-4	-5
Other	-5	-8	-5	-5	-6	-6	-6	-6	-8	-8	-8	-8
Indirect business tax and non-tax accruals	-7	.9	-4	.9	-1.4	-1.3		1.1	.9	.8	.9	.9
User fees proposed: Non-taxes	.3	2.2	.9	2.2			1.2	2.2	2.2	2.2	2.2	2.2
Aircraft and airway	.3	1.2	.9	1.3			1.2	1.2	1.2	1.2	1.2	1.2
Inland waterway		.4		.4				.4	.4	.4	.4	.4
Nuclear waste		.3		.3				.3	.3	.3	.3	.3
Other		.8	.1	.8				.3	.3	.3	.3	.3
Economic Recovery Tax Act	-1.0	-1.3	-1.3	-1.4	-1.4	-1.3	-1.3	-1.1	-1.4	-1.4	-1.3	-1.3
Windfall profits tax credit	-1.9	-1.8	-1.3	-2.0	-1.4	-1.3	-1.2	-1.1	-2.0	-2.0	-1.9	-1.9
Extension of telephone excise tax		.9		.6					.5	.5	.6	.6
Contributions for social insurance	21.8	28.4	24.0	29.2	23.8	24.4	24.7	23.3	28.4	28.9	29.5	29.8
Legislation proposed	.5	.5		.1				-1.9	.2	.2	.1	.1
Privatization of railroad retirement		-3.2		-3.2				-3.2	-3.2	-3.2	-3.2	-3.2
Full social security for railroad workers	1.4	.3		1.5				1.3	1.4	1.4	1.5	1.5
Hospital insurance for Federal employees	1.2			1.0					1.0	1.0	1.0	1.0
Economic Recovery Tax Act: Railroad retirement	.4	.5	.5	.5	.5	.5	.5	.5	.5	.5	.5	.5
Social security rate and base increases	21.4	28.1	24.0	28.4	23.3	23.9	24.2	24.7	28.1	28.6	29.1	29.4
Jan. 1, 1981 base increase: \$25,900-\$29,700	4.5	4.8	4.5	4.8	4.5	4.5	4.5	4.6	4.7	4.8	4.9	4.9
Jan. 1, 1981 rate increase: 12.28%-13.2%	13.8	14.8	13.9	14.3	13.6	13.9	14.1	14.8	14.5	14.7	14.9	15.2
Jan. 1, 1982 base increase: \$29,700-\$32,400	1.0	3.2	3.0	3.4	2.9	3.0	3.0	3.1	3.2	3.2	3.3	3.3
Jan. 1, 1982 rate increase: 13.6%-13.4%	1.0	1.4	1.3	1.3	1.3	1.3	1.3	1.4	1.4	1.5	1.5	1.5
Jan. 1, 1983 base increase: \$32,400-\$35,100	.9			2.8					2.7	2.8	2.9	2.9
Self-employed increases	1.3	1.8	1.3	1.6	1.8	1.8	1.8	1.8	1.6	1.6	1.8	1.6

1. The estimates are based on the direct effect only of tax changes at a given level of economic activity. Indirect effects are not included here, but are included in total NIPA receipts and the total for each category of receipts shown in table 11.

Table 8.—Breakdown of Changes in Federal Expenditures, NIPA Basis

(Billions of dollars)

	Change from preceding fiscal year		
	1981	1982	1983
Total expenditures.....	89.2	74.8	86.7
Purchases of goods and services:			
Pay raises ¹	6.8	8.7	5.5
Veterans hospital and medical care.....	.4	.6	.4
Commodity Credit Corporation.....	.1	1.3	-4.6
Petroleum, timber, and other sales.....	.1	-1.0	-1.3
Transfer payments to persons:			
Social security.....	27.7	23.8	23.8
Military and civilian pensions.....	4.8	3.0	3.2
Unemployment benefits.....	2.0	1.8	-2.2
Food stamps.....	1.7	.....	-1.7
Railroad retirement.....	.5	.4	-5.3
Trade adjustment assistance.....	-2.2	-1.4	-1.1
Grants-in-aid to State and local governments:			
Public assistance.....	3.9	.3	-2.3
Food and nutrition.....	.5	-1.1	-1.5
Employment and training.....	.2	-1.1	-1.5
Education.....	-2.2	.....	-1.8
Waste treatment.....	-1.5	.2	-1.1
Public service employment.....	-1.2	-2.1	-2.2
Net interest paid.....	15.7	14.3	14.6
Subsidies less current surplus of government enterprises:			
Housing subsidies.....	1.4	1.4	.3
Agricultural subsidies.....	1.0	.1	-5.6
Commodity Credit Corporation.....	.2	-2.2	.8
Federal Housing Administration.....	.....	.1	-8.8
Postal Service.....	.....	-1.3	.2
All other expenditures ²	24.3	21.9	21.8
National defense.....	16.0	25.6	25.5
Nondefense.....	8.3	.4	-4.0

1. Consists of pay raises since October 1980.

2. Includes purchases of goods and services, transfer payments, grants-in-aid, and subsidies less current surplus of government enterprises.

shows the relation between unified budget outlays and NIPA expenditures.

Federal receipts on the NIPA basis in 1983 are \$688.2 billion, up \$44.8 billion from 1982 (chart 6). The increase is the net result of an \$83.5 billion increase due to higher tax bases and a \$38.7 billion decrease due to tax changes (table 6). Enacted tax changes—largely resulting from ERTA—contribute \$55.1 billion to the increase, and are partly offset by proposed tax changes, which raise receipts \$16.4 billion more in 1983 than in 1982. Table 7 shows the direct impact of selected tax changes on NIPA receipts.

Federal expenditures on the NIPA basis in 1983 are \$788.1 billion, up \$46.7 billion from 1982. As shown in table 8, social security benefits account for over one-half of the 1983 increase; net interest paid accounts for about one-third. Pay and pensions for Federal employees are also up. Reductions occur in various grants-in-aid to State and local governments, subsidies for agriculture and housing, and in purchases for the agricultural price

support operations of the Commodity Credit Corporation. Chart 7 shows the average annual rate of change for NIPA expenditure categories and entitlements included in those categories.

Table 9 shows the impact on NIPA expenditures of proposed legislation and administrative actions. In 1983, expenditures are reduced \$34 billion and increased \$22 billion by these proposals; 80 percent of the increases are for national defense purchases.

Table 10 shows the relationship between national defense outlays in the unified budget and national defense purchases on the NIPA basis. In 1983, outlays, which are recorded on a checks issued basis, increase more rapidly than purchases, which are recorded on a delivery basis. The more rapid increase in outlays reflects the steep rise in procurement of military hardware, for which checks are issued prior to deliveries. However, economic activity may be stepped up prior to either check issuance or deliveries—for example, when orders are placed. According to the Council of Economic Advisers, defense industries are be-

Table 9.—Breakdown of Proposed Legislation and Administrative Actions, NIPA Basis

(Billions of dollars)

	Fiscal year 1982			Fiscal year 1983		
	Total	Reduction	Increases	Total	Reduction	Increases
Federal Government expenditures.....	-1.8	-2.7	1.7	-12.0	-24.0	22.8
Purchases of goods and services.....	1.8	-1.1	1.7	12.5	-6.2	18.7
National defense.....	1.3	.....	1.3	14.2	-1.2	17.4
Nondefense.....	.5	-1.1	.4	-8.7	-5.0	1.3
Transfer payments.....	-1.7	-1.7	.....	-10.8	-14.6	.3
To persons.....	-1.7	-1.7	.....	-10.8	-14.6	.2
Entitlement programs.....	-1.0	-1.0	.....	-9.0	-9.0	.....
Medicare.....	-3	-3	.....	-2.5	-2.5	.....
Food stamps.....	-3	-3	.....	-2.4	-2.4	.....
Railroad retirement.....	.....	.....	.....	-2.0	-2.0	.....
Guaranteed student loans.....	-2	-2	.....	.....	.....	.....
Civilian retirement.....	.....	.....	.....	-5	-5	.....
All other.....	-2	-2	.....	-8	-8	.....
Management initiatives.....	-6	-6	.....	-6	-6	.....
Other proposals.....	-2	-2	.....	-8	-10	.2
To foreigners.....	.....	.....	.....	.1	.....	.1
Grants-in-aid to State and local governments.....	-9	-9	.....	-9.4	-12.4	3.0
Entitlement programs.....	-5	-5	.....	-3.9	-8.9	.....
Medicaid.....	-3	-3	.....	-2.0	-2.0	.....
Aid to families with dependent children.....	-2	-2	.....	-1.2	-1.2	.....
All other.....	.....	.....	.....	-7	-7	.....
Management initiatives.....	-3	-3	.....	-3	-3	.....
Other proposals.....	-2	-2	.....	-5.2	-8.2	3.0
Employment and training.....	.....	.....	.....	-1.5	-3.1	1.2
Education.....	-1	-1	.....	-1.1	-1.1	.....
Social services.....	-1	-1	.....	-1.0	-1.0	.....
Food and nutrition.....	.....	.....	.....	-1.1	-1.1	.....
Emergency assistance.....	.....	.....	.....	-6	-6	.....
Health care.....	.....	.....	.....	-4	-6	1.0
Mass transit.....	.....	.....	.....	-5	-5	.....
All other.....	.....	.....	.....	-2	-6	.8
Net interest paid.....	.....	.....	.....	-2.7	-2.7	.....
Subsidies less current surplus of government enterprises.....	.....	.....	.....	-2.1	-2.1	.....

Table 10.—Relation of National Defense Purchases in the National Income and Product Accounts to National Defense Outlays in the Unified Budget

(Billions of dollars)

	Fiscal year		
	Actual 1981	Estimated 1982	Estimated 1983
National defense outlays in the unified budget.....	169.8	187.5	221.1
Department of Defense, military.....	166.1	182.8	215.9
Military personnel.....	36.4	38.3	44.5
Retired military personnel.....	13.7	15.0	15.5
Operation and maintenance.....	51.9	60.6	67.3
Procurement.....	35.3	41.3	55.1
Aircraft.....	13.1	15.5	21.7
Missiles.....	2.5	4.4	6.3
Ships.....	5.2	5.4	6.8
Weapons.....	2.3	2.4	2.9
Ammunitions.....	1.4	1.5	2.0
Other.....	9.7	11.8	15.9
Research, development, test, and evaluation.....	15.3	18.3	22.2
Other.....	3.6	4.2	5.8
Civilian and military pay raises ¹.....	.....	5.1	4.8
Atomic energy and other defense-related activities.....	3.7	4.7	5.2
Plus: Military assistance outlays.....	1.5	1.0	1.8
Less: Transfer payments to retired military personnel.....	13.7	15.0	16.4
Grants-in-aid and net interest paid.....	1.0	1.2	1.4
Timing differences.....	1.4	.3	3.3
Other adjustments.....	-1.9	-2.1	-2.2
Equals: National defense purchases, NIPA.....	147.1	176.1	203.2

1. Consists of the pay raises effective October 1981.

Table 11.—Federal Government Receipts and Expenditures, NIPA Basis

(Billions of dollars)

	Fiscal year				Calendar year												
	Actual 1981	Estimate		Actual 1981	Estimate 1982	Actual				Estimate							
		1982	1983			1981				1982				1983			
						I	II	III	IV	I	II	III	IV	I	II	III	
Federal Government receipts.....	512.5	541.4	554.2	526.1	649.5	617.4	621.0	628.3	627.7	629.4	651.1	647.8	639.5	691.8	706.7	692.8	
Legislation proposed.....	.1	.8	17.2	.1	.9	.1	.1	.1	.1	.5	.5	1.7	.9	22.8	28.1	23.6	
Tax revisions.....			3.8											13.0	18.8	13.4	
User fees.....			2.5											2.3	2.6	2.8	
Other.....	.1	.5	5.1	.1	.9	.1	.1	.1	.1	.5	.5	1.2	.3	7.8	7.5	7.9	
Economic Recovery Tax Act.....	-8.5	-29.5	-100.1	-5.9	-51.9	-8.5	-4.5	-5.5	-21.9	-32.5	-84.5	-67.5	-72.5	-82.3	-95.9	-123.3	
Social security rate and base in- creases.....	12.1	21.4	26.7	16.9	24.0	15.4	16.7	17.0	17.1	23.3	23.9	24.2	24.7	28.1	26.5	29.1	
Other.....	608.8	658.7	742.8	613.0	675.5	604.0	622.7	627.0	632.4	658.4	681.3	689.4	706.5	739.4	760.9	768.5	
Personal tax and nontax receipts.....	250.7	304.6	307.7	294.3	305.3	288.3	293.2	300.4	302.0	304.4	311.4	328.8	306.5	310.9	319.0	298.5	
Legislation proposed.....		.1	4.8										.1	6.8	6.8	7.0	
User fees.....			.1										.1	.1	.1	.1	
Other.....		.1	4.7											6.6	6.7	6.9	
Economic Recovery Tax Act.....	-2	-30.3	-82.5	-4.0	-49.8	-2	-1.5	-1.5	-15.8	-23.3	-24.3	-58.0	-59.1	-75.5	-77.0	-107.4	
Other.....	200.9	284.8	285.4	288.3	245.1	288.3	288.2	300.8	317.6	328.2	355.7	354.8	365.5	376.9	389.3	389.9	
Corporate profits tax accruals.....	69.6	59.1	78.1	66.2	60.4	74.6	64.8	68.4	59.8	58.2	57.4	62.0	63.9	50.4	59.1	54.0	
Legislation proposed.....	.1	.4	10.8	.1	.5	.2	.2	.2	.1	.5	.5	.5	.5	14.0	14.3	14.5	
Tax revisions.....			9.8											18.0	13.3	18.4	
Other.....	.1	.4	1.0	.1	.5	.1	.1	.1	.1	.5	.5	.5	.5	1.0	1.0	1.1	
Economic Recovery Tax Act.....	-3.3	-8.0	-16.8	-4.8	-10.3	-3.3	-4.5	-5.2	-6.1	-8.1	-9.4	-10.5	-12.9	-15.8	-18.0	-20.1	
Other.....	72.9	67.3	84.1	70.9	70.2	77.8	69.2	71.5	64.8	65.8	68.3	72.3	70.3	82.2	86.8	90.5	
Indirect business tax and nontax accruals.....	58.1	57.4	58.0	61.8	56.9	60.6	62.6	61.8	59.9	56.2	56.1	57.4	58.0	57.7	57.8	58.1	
Legislation proposed.....			2.2											2.2	2.2	2.3	
Economic Recovery Tax Act.....			-1.8											-1.1	-1.4	-1.3	
Other.....	56.1	58.1	57.1	61.3	57.3	60.6	62.6	61.9	60.1	57.6	57.4	57.4	58.0	56.9	57.0	57.2	
Contributions for social insurance.....	198.1	229.3	292.4	202.5	226.9	198.9	200.4	203.7	207.9	220.5	228.2	229.5	231.1	242.8	240.6	261.3	
Legislation proposed.....			.5		.5									-1.9	-2	-1	
Economic Recovery Tax Act.....		.4	.5		.5					.5	.5	.5	.5	.5	.5	.5	
Social security rate and base changes.....	12.1	21.4	20.7	16.9	24.0	16.7	17.0	17.0	17.1	23.3	23.9	24.2	24.7	29.1	28.6	29.1	
Other.....	184.0	198.6	210.7	185.6	202.9	182.3	183.7	186.7	189.9	196.3	201.8	204.9	207.5	214.4	217.9	221.3	
Federal Government expenditures.....	467.4	741.4	788.3	498.4	708.7	664.0	648.2	694.0	727.2	735.2	749.1	751.9	784.9	779.2	791.6	815.7	
Legislation proposed.....		-1.0	-12.0		-4.0					1.7	-1.4	-4.7	-11.7	-11.0	-12.7	-12.7	
Other.....	467.4	742.4	800.1	498.4	704.7	664.0	648.2	694.0	727.2	733.3	747.3	756.6	796.6	790.2	804.3	828.4	
Purchases of goods and services.....	337.3	249.0	373.4	230.3	229.3	221.5	212.6	225.4	253.3	248.8	245.2	249.9	269.1	269.9	277.5	295.4	
National defense.....	147.1	174.1	203.2	184.3	178.9	145.2	148.2	154.1	168.1	173.2	174.9	178.6	189.0	199.5	207.2	217.2	
Pay raises.....																	
October 1981.....		5.5	5.5	1.3	5.5				5.3	5.5	5.5	5.5	5.5	5.5	5.5	5.5	
October 1982.....		4.1	4.1		4.1									3.9	4.1	4.1	
Legislation proposed.....		1.3	1.3		1.3					1.7	1.8	1.7	1.3	1.5	1.8	20.6	
Other.....	147.1	181.2	198.9	183.0	183.2	145.2	148.2	154.1	164.4	169.0	167.6	171.3	168.0	173.3	179.2	187.0	
Nondefense.....	70.7	74.9	79.2	75.9	71.4	78.4	71.3	72.2	83.5	75.6	75.3	71.4	70.1	70.4	70.3	69.2	
Pay raises.....																	
October 1981.....		1.2	1.2	.8	1.2				1.1	1.2	1.2	1.2	1.2	1.2	1.2	1.2	
October 1982.....		1.4	1.4		1.4									1.3	1.4	1.4	
Commodity Credit Corporation.....	1.9	2.8	-1.5	3.4	-6	4.1	-3.9	1.0	11.7	4.5	-3.5	-1.7	-1.8	-1.8	-1.8	-1.8	
Strategic petroleum reserve.....	3.4	5.1	3.1	4.4	2.6	2.3	5.9	5.0	4.5	3.0	2.3	2.5	2.7	2.9	3.3	3.5	
Legislation proposed.....			2.1		-2									-1.3	-2.5	-3.2	
Other.....	65.9	67.5	69.2	67.5	68.8	70.0	68.5	66.2	65.1	65.2	68.0	68.6	68.5	68.2	67.4	68.6	
Transfer payments.....	219.7	312.1	330.5	284.5	318.8	271.9	274.8	293.8	297.6	308.6	315.5	326.8	324.9	327.2	329.5	341.6	
To persons.....	218.9	308.0	324.6	279.4	312.8	261.3	270.7	287.5	291.7	302.4	309.3	320.6	318.7	321.0	323.3	335.4	
Social security.....	175.2	196.2	222.0	180.4	204.5	189.8	172.0	188.5	191.2	193.9	196.5	211.0	216.4	216.4	220.4	232.3	
Legislation proposed.....			1.0		.1									1.7	1.7	1.7	
Other.....	175.2	196.2	221.0	180.4	204.4	189.8	172.0	188.5	191.2	193.9	196.5	211.0	214.7	217.3	219.7	232.4	
Unemployment benefits.....	16.8	23.0	29.6	15.6	24.4	15.6	15.8	14.8	15.0	24.2	27.6	24.3	21.7	22.0	20.4	18.1	
Regular.....	18.9	19.5	19.5	14.4	28.9	13.2	14.3	14.3	15.8	20.2	22.4	21.0	20.1	19.6	19.6	19.7	
Extended.....	2.1	3.2	1.0	1.1	3.5	2.1	1.4	5.6	2	4.0	2.4	2.3	1.6	2.4	.8	.3	
Railroad retirement.....	5.2	5.9	.3	5.8	4.3	5.1	5.1	5.6	5.5	6.4	6.6	5.8	.3	.3	.3	.3	
Legislation proposed.....			-5.7		-1.4									-5.7	-5.7	-5.7	
Other.....	5.2	5.9	6.0	5.8	4.7	5.1	5.1	5.6	5.5	6.4	6.6	5.8	5.8	6.0	6.0	6.0	
Other.....	77.6	79.2	81.5	78.2	73.6	78.8	78.0	78.9	79.0	78.9	78.6	79.3	80.3	80.3	82.2	82.2	
Legislation proposed.....			-1.4		-2.6									-4.3	-5.6	-6.4	
Other.....	77.6	80.6	87.2	78.2	82.2	78.8	77.9	78.9	79.0	78.9	78.6	79.3	80.3	80.3	82.2	82.2	
To foreign.....	5.6	6.1	6.2	5.2	6.2	4.7	4.1	5.8	6.3	6.2	6.2	6.2	6.2	6.2	6.2	6.2	
Grants-in-aid to State and local governments.....	90.1	88.2	78.8	87.2	85.8	90.2	89.8	85.4	83.7	85.8	88.1	88.3	81.4	77.7	76.5	72.7	
Public assistance.....	27.8	28.7	38.4	27.7	28.2	26.9	28.5	29.1	24.2	28.2	29.3	30.6	28.0	28.8	25.0	24.9	
Legislation proposed.....			-4.2		-1.6									-1.2	-4.8	-4.5	
Other.....	27.8	28.3	30.6	27.7	28.7	28.9	28.5	29.1	24.2	28.2	29.3	30.6	28.0	28.8	25.0	24.9	
Education.....	7.4	7.4	5.8	7.9	6.9	8.8	7.6	6.9	5.4	7.7	7.1	6.4	6.2	6.8	6.8	6.8	
Legislation proposed.....			-1.1		-3									-3	-3	-3	
Other.....	7.4	7.5	6.9	7.9	7.2	8.8	7.0	6.9	5.4	7.7	7.2	6.7	7.8	6.8	6.8	6.8	
Other.....	54.9	50.2	44.5	51.6	49.7	64.5	53.5	49.4	49.1	49.3	51.2	51.8	47.2	45.1	44.0	42.2	
Legislation proposed.....			-3		-1.3									-3	-3	-3	
Other.....	54.9	50.5	48.7	51.6	50.9	64.5	53.5	49.4	49.1	49.3	51.6	51.8	47				

ginning to build up inventories of work in progress as components and materials move through the stages of fabrication toward delivery. Accordingly, this type of inventory accumulation (recorded in the NIPA's as change in business inventories) will be strengthened in coming quarters.

Quarterly pattern.—On a quarterly basis, the Federal deficit increases in the third quarter of 1982 when income tax withholding rates are cut and social security benefits are increased. The deficit declines for three quarters thereafter, but increases again in the third quarter of 1983,

surpassing its 1982 high, when withholding rates are cut again (table 11).

The quarterly pattern is estimated by BEA with the cooperation of the Office of Management and Budget, the Social Security Administration,

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Entitlement Programs

Entitlement programs are defined in the 1983 budget as programs that provide benefit payments for individuals whose eligibility is determined by law. They consist of cash and in-kind programs and may be administered directly by the Federal Government or as a grant-in-aid to State and local governments. They exclude programs, such as agricultural subsidies and revenue sharing, that provide payments that are determined by legislated formulas. Examples of entitlement programs are: social security, medicare and medicaid, unemployment, food stamps, aid to families with dependent children (AFDC), and veterans benefits. Because eligibility is established by law, expenditures in the short run are not determined through the appropriation process.

Growth of entitlements

In fiscal year 1971, entitlements amounted to \$77.5 billion and accounted for 37 percent of total outlays. Ten years later, they amounted to \$305.8 billion and accounted for 47 percent of total outlays. Over this period, entitlements increased at an average annual rate of 15 percent and accounted for over 50 percent of the growth in total outlays.

Several factors have contributed to this growth, among them increases in the number of beneficiaries, expanded coverage, and the introduction of new programs. However, the most significant factor in recent years has been indexing—the automatic adjustment of spending to changes in prices or other economic variables.

Indexing pushes up the cost of entitlements in two main ways. First, it adjusts benefits for programs such as social security when prices are rising. Currently, each percentage-point increase in the Consumer Price Index (CPI) adds about \$1.4 billion to the cost of social security. Second, it adjusts upward the income limit for program eligibility. Eligibility for the school lunch program, for example, is determined by reference to the poverty income level as defined by the Federal Government, and that level is indexed to the CPI.

Military retirement was the first entitlement to be indexed in 1963; civilian retirement followed in 1965. Social security, the largest program, was indexed in

1975. Currently, most of the large entitlement programs are indexed, either directly or indirectly. The major exception is AFDC. Medicare and medicaid are not directly indexed, but their costs increase with the general increase in the costs of medical care. Similarly, average unemployment benefits, which are largely based on a percent of wages, increase with average wages.

Spending for entitlements is also highly sensitive not only to inflation but also to other factors. For example, an increase of 1 percentage point in the unemployment rate increases unemployment benefits by \$4 billion; other entitlement programs are affected by smaller amounts.

Reform of entitlements

The rapid growth and absolute size of entitlements have brought them under increased scrutiny by the administration and Congress. As noted, in the short run these programs are not controlled by the appropriation process. However, Congress can cut the cost of entitlements by changing the laws that authorize them. For example, the Omnibus Budget Reconciliation Act of 1981 made changes that reduced entitlements an estimated \$11.8 billion in fiscal year 1982. (See the December 1981 Survey.) The administration is proposing additional reforms in entitlements other than social security that would reduce spending \$1.4 billion in 1982 and \$12.8 billion in 1983, and \$35.9 billion in 1987. These reductions cover medicare, education, and Federal retirement as well as food stamps and AFDC, which were reduced in 1981. Including these proposals, entitlements increase 11 percent in 1982 and only 5 percent in 1983, but still account for \$358 billion or 47 percent of total outlays.

However, for several reasons, entitlement reductions may be more difficult to achieve in 1982 and later. Congress may be less willing to approve large reductions this year. It may be more difficult to cut education benefits than food stamps, and it will be difficult to reduce physician and hospital reimbursement rates under medicare. Also, earlier reductions implemented most of the generally accepted reforms such as including a stepfather's income in determining AFDC eligibility and limiting eligibility for trade adjustment assistance.

facilities viewed as in excess of needs remained at 15 percent. Shifts in evaluation of facilities were most pronounced in primary metals, chemicals, and petroleum.

NONMANUFACTURING PROGRAMS

Spending in current dollars for new plant and equipment by nonmanufacturing increased 1½ percent in the fourth quarter, to an annual rate of \$200.9 billion, following a 3½-percent increase in the third quarter. Air transportation reported a 44-percent increase. Increases ranging between 4½ and 2 percent were reported by

trade, "communication and other," and electric utilities. Nonmanufacturing firms expect little change in spending from the fourth quarter to the first and a 1-percent increase in the second. Plans for the second half imply an average quarterly increase of about 3½ percent.

For 1982, planned spending in current dollars by nonmanufacturing totals \$208.3 billion, 7 percent more than spending last year. The largest increases are planned by "other transportation," 21 percent; and "communication and other," 11½ percent. Smaller increases are planned by air transportation, 9 percent; mining, 8½ percent; railroads, 7 per-

cent; electric utilities, 7 percent; and trade and services, 5 percent. Gas utilities plan a 2½-percent decrease.

A decline in real spending of 1.2 percent is planned in 1982 by nonmanufacturing industries. Declines in mining and public utilities more than offset increases in transportation and "communication and other."

Starts of new projects by public utilities in the fourth quarter totaled \$1.0 billion, compared with \$9.3 billion in the third quarter. Carryover of utility projects totaled \$126 billion at the end of December, down \$8.9 billion from the end of September and reflecting the cancellation of several large generation projects.

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and the Departments of Agriculture, Labor, and Treasury. Receipts reflect the pattern of proposed and enacted tax changes and the administration's projected quarterly pattern of wages and profits. Expenditures reflect the pattern of proposed legislation and selected other items, such as cost-of-living increases in retirement benefits and pay raises for Federal employees. All estimates are seasonally adjusted at annual rates.

High-employment surplus or deficit.—The high-employment surplus is an estimate of the amount by which Federal revenues would exceed Federal expenditures if the economy were operating at a high-employment level of activity at current price levels. Consequently, cyclical fluctuations in the economy do not affect high-em-

Table 12.—High-Employment Surplus or Deficit (—), NIPA Basis
(Billions of dollars)

	High-employment surplus or deficit (—)	Change
Calendar year		
1980	-20.3	-18.2
1981	-2.6	17.7
1982	-2.7	-1.1
Quarters:		
1980:		
I	-18.3	-18.6
II	-21.7	-3.4
III	-24.2	-2.5
IV	-15.8	7.4
1981:		
I	-1.3	15.5
II	10.5	11.9
III	4.3	-6.3
IV	-24.9	-28.3
1982:		
I	-5	28.4
II	15.2	15.8
III	-15.1	-30.8
IV	-10.4	4.7
1983:		
I	7.3	17.1
II	3.6	-3.7
III	-43.2	-46.8

ployment budget receipts or expenditures. The high-employment surplus is therefore a measure, although an imperfect one, of discretionary fiscal policy. (See the November 1980 SURVEY for a discussion of the limitations of the high-employment budget and BEA's methodology for calculating it. An article in the April 1982 SURVEY will update and refine the earlier estimates.)

As measured on a high-employment basis, the Federal sector of the NIPA's was in deficit in calendar year 1980 and continues in deficit—although much smaller—in 1981 and 1982. There is a swing to surplus in the first half of 1982 before returning to deficit in the second half, reflecting the second stage of tax reductions under ERTA and a social security benefit increase. In 1983, the pattern is repeated; the first half is in surplus and the second half is in deficit (table 12).